



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

March 23, 2009

Joseph Conroy
Director of Finance/Administration
Insurance Educational Association
2670 North Main Street, #350
Santa Ana, CA. 92705-6639

Dear Mr. Conroy:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET04-0494 for the period December 15, 2003 through December 14, 2005.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

Enclosures

cc: Susanna Lum, Assistant to Director of Finance/Administration
John Beach, Director of Sales

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INSURANCE EDUCATIONAL ASSOCIATION

ET04-0494

Final Audit Report

For The Period

December 15, 2003 through December 14, 2005

Report Published March 23, 2009

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TABLE OF CONTENTS

	<u>Page Number</u>
AUDITOR'S REPORT	
Summary	1
Background	2
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Audit Appeal Rights	3
Records	3
SCHEDULE 1 - Summary Of Audit Results	5
FINDINGS AND RECOMMENDATIONS	6
<u>ATTACHMENTS</u>	
ATTACHMENT A - Appeal Process	
ATTACHMENT B - Table of Disallowed Trainees	

AUDITOR'S REPORT

Summary

We performed an audit of Insurance Educational Association, Agreement No. ET04-0494, for the period December 15, 2003 through December 14, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period November 5, 2007 through November 8, 2007, except for Finding No. 1, for which our report is dated November 16, 2007.

The Employment Training Panel (ETP) paid the Contractor a total of \$212,604.43. Our audit supported that \$211,841.43 is allowable. The balance of \$763 is disallowed and must be returned to ETP. The disallowed costs resulted from one trainee who was not employed in an eligible occupation, and one trainee who had unsupported class/lab training hours. We also noted an administrative finding for inaccurate reporting of trainee wage rates.

AUDITOR'S REPORT (continued)

Background

Insurance Educational Association (IEA) is a non-profit corporation formed in 1876 by a group of insurance industry employers and has a membership consisting of 150 companies nationwide. IEA is headquartered in San Francisco but operates throughout California, where it conducts approximately 80 percent of its business.

This was the second Agreement between IEA and ETP. The training project sought to promote the skill and competitiveness of California's insurance industry workforce. In recent years, the insurance workplace has evolved into an increasingly technical and demanding job environment. To sustain employment, workers must develop higher-level skills to perform more complex tasks. Therefore, the Agreement provided for training in Business Skills that support increased decision-making and problem-solving abilities amongst insurance industry workers.

This Agreement allowed IEA to receive a maximum reimbursement of \$333,600 for retraining 600 employees. During the Agreement term, the Contractor placed 336 trainees and was reimbursed \$212,604.43 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Insurance Educational Association. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Insurance Educational Association complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees received the minimum training hours specified in the Agreement.
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of

AUDITOR'S REPORT (continued)

the 90-day retention period.

- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$211,841.43 of the \$212,604.43 paid to the Contractor under this Agreement was allowable. The balance of \$763 was not earned according to the terms of the Agreement and must be returned to ETP.
Views of Responsible Officials	<p>The audit findings were discussed with Joseph Conroy, Director of Finance/Administration, Susanna Lum, Assistant to Director of Finance/Administration, and John Beach, Director of Sales, during an exit conference held on January 17, 2008. The Contractor representatives agreed to bypass the draft report and proceed to the final audit report.</p> <p>The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning November 17, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$85.84, which was deducted from the total accrued interest.</p>
Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
Records	Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right to "...examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment by ETP to the Contractor, or three

AUDITOR'S REPORT (continued)

(3) years from the date of resolution of appeals, audits, claims, exceptions, or litigation, whichever is later.”

Stephen Runkle
Audit Manager

Fieldwork Completion Date: November 8, 2007, except for Finding No. 1, for which our report is dated November 16, 2007.

SCHEDULE 1 – Summary of Audit Results

INSURANCE EDUCATIONAL ASSOCIATION

AGREEMENT NO. ET04-0494

FOR THE PERIOD

December 15, 2003 THROUGH December 14, 2005

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 212,604.43</u>	
Costs Disallowed:		
Ineligible Trainee Occupation	520.00	Finding No. 1
Unsupported Class/Lab Training Hours	243.00	Finding No. 2
Inaccurate Reporting	<u>-</u>	Finding No. 3
Total Costs Disallowed	<u>763.00</u>	
Training Costs Allowed	<u><u>\$ 211,841.43</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Ineligible Trainee Occupation Insurance Educational Association (IEA) received reimbursement for one trainee who was not employed after training in one of the occupations specified in the Agreement. As a result, we disallowed \$520 in training costs claimed for this trainee.

Paragraph 5(i) of the Agreement between IEA and ETP states, “No senior level managers or executive staff who set company policy are included in ETP-funded training under this Agreement.”

Exhibit A, Paragraph VII of the Agreement states, “Employment for each trainee shall be in the occupations listed in [the Agreement]...” The occupations identified for Job No. 1 were Claims, Administrative, Marketing, Underwriting, Audit, and Loss Control Staff Persons.

Employer information obtained via Employment Verification Questionnaire indicated that Trainee No. 1 was employed as “Director of Provider Relations” during her retention period. The duties of her position outlined in documents provided by the employer include policy formulation and other duties consistent with those typical of a senior level manager.

Recommendation IEA must return \$520 to ETP. In the future, the Contractor should ensure all trainees are employed in occupations identified in the Agreement before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – IEA training records did not support that one trainee completed the
Unsupported number of class/lab training hours reported to ETP. Therefore, we
Class/Lab Training disallowed \$243 (17.5 hours x \$13 per hour + support cost factor).
Hours

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training.

Paragraph 2 (b) of the Agreement between IEA and ETP states: "Reimbursement for class/lab training for all trainees will be based on the total actual number of training hours completed..."

Trainee No. 2 did not appear on seven training rosters maintained by the Contractor for the dates of 2/9, 3/2, 3/9, 3/23, 3/30, 4/6 and 4/20/2005. 2.5 class/lab hours for each of these dates was reported to ETP in error for Trainee No. 2 due to a mistake involving another Non-ETP trainee with a similar name. Therefore, 17.5 training hours reimbursed by ETP are unsupported.

Recommendation IEA must return \$243 to ETP. In the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Trainee hourly wage rates reported by IEA on invoices submitted to Inaccurate ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Paragraph 2 (d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, Paragraph VII-A of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on employer responses for 26 of the 37 initial random sample trainees for whom Employment Verification Questionnaires were mailed. Trainee wage rates reported by IEA varied by 5 percent or more from actual wage rates for 15 of the 26 trainees (58 percent).

Recommendation In the future, IEA should ensure all trainee wage rate data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET04-0494 and should not be used for any other purpose.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006